

Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 L-02 H-02 FEA-01 INT-05 OES-03 /101 W
----- 089368

R 181655Z APR 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2308

INFO AEMEMBASSY BONN 286

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ALGIERS 0986

PASS EXIM

E.O. 11652: GDS

TAGS: ECON, ETRD, AG

SUBJ: ALGERIAN BALANCE OF PAYMENTS FORECAST

REF: ALGIERS 2737

SUMMARY: ALGERIA'S BALANCE OF PAYMENTS IS GOING INTO
DEFICIT RAPIDLY DUE TO A NUMBER OF RELATED, ADVERSE
CAUSES. THIS MESSAGE REVIEWS THESE TRENDS AND
FORECASTS SERIOUS BALANCE OF PAYMENTS PROBLEMS BY
1977. END SUMMARY.

1. QUADRUPLING OF OIL PRICES AFTER RAMADAN WAR LED
TO BELIEF LOCALLY THAT ALGERIA WAS RICH AND COULD
BUY ANYTHING IT NEEDED. THE RESULT WAS A VERY
AMBITIOUS 2ND FOUR-YEAR PLAN (1973-1977) THAT LAYS
GREAT EMPHASIS ON INDUSTRIALIZATION.

2. HIGH OIL PRICES ALSO GAVE ALGERIA 45 PERCENT
INCREASE IN GNP OVERNIGHT, CAUSING LARGE INCREASES IN
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CONSUMPTION. FOR EXAMPLE, ALGERIA PLANS TO IMPORT

36,000 PASSENGER CARS THIS YEAR WHILE IN 1972 IT IMPORTED ONLY 18,000. WHEAT CONSUMPTION WAS ESTIMATED AT 2.5 MILLION TONS IN 1973, WHILE IT IS NOW ESTIMATED AT 3.5 MILLION TONS. THESE CONSUMPTION INCREASES ADDED TO THE CAPITAL DEMANDS OF THE 2ND FOUR-YEAR PLAN HAVE SWOLLEN ALGERIAN IMPORTS. IN 1973 ALGERIA IMPORTED 2.3 BILLION DOLLARS OF GOODS. IN 1975 THE MINISTER OF COMMERCE PUBLICLY ESTIMATED 5 BILLION DOLLARS IN IMPORTS FOR THE CURRENT YEAR, AND THE MINISTRY OF FINANCE HAS USED IN PRIVATE THE FIGURE OF 6.3 BILLION DOLLARS FOR THE SAME PERIOD.

3. COST OF LIVING IN ALGIERS FOR A EUROPEAN COUPLE HAS INCREASED 10 PERCENT FROM JANUARY 1974 TO OCTOBER 1974 THROUGH DECEMBER 1974. THESE ARE UNOFFICIAL CHAMBER OF COMMERCE FIGURES. OFFICIAL CURRENT COST-OF-LIVING FIGURES FOR ALGERIANS ARE UNOBTAINABLE AND WOULD BE MUCH LOWER BECAUSE IMPORT SUBSIDIES OF BASIC COMMODITIES--WHEAT, SUGAR, MILK--HAVE KEPT THEIR PRICES LOW. THESE IMPORT SUBSIDIES ARE BUDGETED, HOWEVER, AT 1 BILLION DOLLARS IN 1975, ANOTHER DRAIN ON HARD CURRENCY EARNINGS.

4. INFLATION ABROAD HAS GREATLY INCREASED IMPORT COSTS BOTH FOR CONSUMER ITEMS AND FOR CAPITAL EXPENDITURES. THE ALGERIAN OPEC MEMORANDUM CITES THE FOLLOWING PRICE INCREASES:

	1973	1974	INCREASE
CEMENT-DOLS TON	25	45	80 PERCENT

	1973	1974	INCREASE
DRILLING EQUIPMENT (DOLS MILLION)			
NATIONAL TYPE 110	2.9	3.9	35 PERCENT

LIQUEFACTION LINE	85	100	20 PERCENT
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TURBO PUMP UNIT GE	1.5	1.8	20 PERCENT
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A US COMPANY WHICH WON A LARGE PUMPING STATION
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CONTRACT IN OCTOBER 1973 HAS DEMANDED A 66 PERCENT PRICE INCREASE FOR COMPLETION OF PROJECT. OTHER SIMILAR PRICE ESCALATIONS ARE BEING NEGOTIATED. THIS LEADS EMBASSY TO HAZARD AN ESTIMATE THAT, OVERALL, THE 2ND FOUR-YEAR PLAN'S CAPITAL IMPORTS ARE SOME 50 PERCENT UNDERSTATED IN 1975 COSTS.

5. ALGERIA'S EXPORTS ARE ABOUT 90 PERCENT HYDRO-

CARBON. SINCE JANUARY 1974 THEY HAVE BEEN FORCED TO CUT THE PRICE OF THEIR OIL FROM \$14.00 A BARREL TO THE PRESENT OFFICIAL PRICE OF \$11.75 A BARREL. THIS REPRESENTS A 20 PERCENT REDUCTION AND THERE ARE RUMORS THAT ALGERIA IS ACTUALLY SELLING AT LESS THAN \$11.75 A BARREL. COMPANY ESTIMATES CALCULATE ALGERIAN OIL SHOULD BE PRICED ABOUT \$11.00 TO COMPETE IN EUROPEAN MARKETS ON PAR WITH SAUDI ARABIAN MARKER CRUDE.

6. ALGERIAN CRUDE OIL EXPORTS ARE DOWN. THIS IS OBVIOUSLY RELATED TO ITS HIGH PRICE IN THE WORLD MARKET. PRODUCTION ALSO IS DOWN BECAUSE OF PRESSURE PROBLEMS IN SOME OF THE MAIN FIELDS, LACK OF MAINTENANCE OF WELLS, AND LOWER THAN EXPECTED RATE OF NEW OIL FINDS. THUS EMBASSY DOUBTS ALGERIAN PRODUCTION COULD REACH RATED CAPACITY EVEN IF THERE WERE INTERNATIONAL DEMAND FOR PEAK PRODUCTION.

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INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARSIS

C O N F I D E N T I A L SECTION 2 OF 2 ALGIERS 0986

BEST ESTIMATE FOR 1975 ALGERIAN CRUDE OIL PRODUCTION IS ABOUT 42 MILLION TONS AND FOR 1976 NOT MORE THAN 45 MILLION TONS. 1975 PRODUCTION IS DOWN 19 PERCENT

FROM RATED CAPACITY OF 52 MILLION TONS A YEAR AND EVEN MORE FROM PRODUCTION OF 59 MILLION TONS FORECAST FOR 1977. THE COMBINATION OF LOWER PRICES AND LOWER PRODUCTION OF CRUDE REDUCES VALUE OF CURRENT ALGERIA GROSS OIL PRODUCTION FROM ANTICIPATED 5.6 BILLION DOLLARS TO 3.8 BILLION DOLLARS OR A DECLINE OF 32 PERCENT FROM EXPECTATIONS.

7. FINALLY, ALGERIA'S LNG EXPORTS WHICH WERE CONFIDENTLY FORECAST AT ABOUT 70 BILLION CUBIC METERS A YEAR BY 1979 HAVE DRAMATICALLY COLLAPSED. BY 1977/78 ALGERIA WILL HAVE A LNG CAPACITY EQUIVALENT TO 19 BILLION CUBIC METERS OF GAS A YEAR. IT HAS SOLID, SIGNED CONTRACTS FOR ONLY 14.4 BILLION CUBIC METERS. EMBASSY EXPECTS CONTRACTS FOR ANOTHER 25 BILLION CUBIC METERS TO BE RE-NEGOTIATED IN THE NEAR FUTURE WITH EUROPEAN CONSORTIUM, SPAIN AND UNITED STATES, BUT THIS STILL MEANS DRASTIC DECLINE
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IN ANTICIPATED HARD CURRENCY EARNINGS FOR ALGERIA'S PRINCIPAL NATURAL RESOURCE.

8. 1975 BLANACE OF PAYMENTS PICTURE CALCULATES OUT AS FOLLOWS:

CRUDE OIL EXPORTS 3.6 BILLION DOLLARS
OTHER EXPORTS .7 BILLION DOLLARS
NET INVISIBLES 6.6 BILLION DOLLARS
IMPORTS BETWEEN 5&7 BILLION DOLLARS
BALANCE OF PAYMENTS DEFICIT BETWEEN 1.4 AND 3.4 BILLION DOLLARS.

9. IN CONVERSATION WITH MINISTRY OF FINANCE OFFICIALS, THE EMBASSY HAS NOTED A STEADY DETERIORATION IN ESTIMATES FOR THE 1975 BALANCE OF PAYMENTS. IN JANUARY , MINISTER OF COMMERCE YAKER ESTIMATED 1974 BALANCE AS IN SLIGHT SURPLUS AND 1975 IN SLIGHT DEFICIT. IN FEBRUARY FINANCE OFFICIALS STARTED TALKING ABOUT A BILLION DOLLAR DEFICIT WHICH THEY HAVE PROGRESSIVELY RAISED TO 2.7 BILLION DOLLAR DEFICIT IN CONVERSATIONS WITH AMERICAN BANKERS.

10. EMBASSY CONVERSATIONS WITH SEVERAL US BANKS INDICATES THAT ALGERIANS HAVE NOT DRAWN DOWN SOME OF THEIR MAJOR 1973 LOANS. THUS, UP TO PERHAPS 1 BILLION DOLLARS COULD BE OBTAINED BY DRAWING DOWN THESE ALREADY FINANCED LOANS. MINISTRY OF FINANCE OFFICIALS INDICATED TO US BANKS THAT THEY INTENDED TO CUT IMPORTS FROM 25 BILLION DINARS TO 20 BILLION DINARS IN 1975 OR BY ABOUT 1.2 BILLION DOLLARS. FINALLY, ALGERIA

CAN BORROW IN 1975 FROM US BANKS AND IN THE EURODOLLAR MARKET. US BANKERS BELIEVE THESE SOURCES ARE WILLING TO ABSORB NEW LOANS TO ALGERIA FOR BETWEEN 500 MILLION AND A BILLION DOLLARS IN ADDITION TO SUPPLIER CREDITS. THESE FIGURES GET ALERIA THROUGH 1975 ON PAPER, BUT LEAVE A MAJOR QUESTION ABOUT FINANCING OF LARGE (AND PROBABLY GREATER, DEPENDING ON RATE OF INDUSTRIALIZATION INVESTMENT) DEFICIT FOR 1976. UNTIL GOA ADMITS PLANNING ERRORS AND CUTS BACK ITS DEVELOPMENT PLAN, LARGE IMPORT SAVINGS ARE HARD TO IMAGINE.
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FINALLY, THIS LEVEL OF BORROWING DOES NOT INCLUDE LOANS FOR ADDITIONAL LNG PROJECTS.

11. ON THE BASIS OF THESE SEVEN TRENDS, EMBASSY FORECASTS SOME VERY LEAN YEARS AHEAD FOR ALGERIA. THERE WILL BE A MAJOR BALANCE OF PAYMENTS CRISIS IN 1976 AND MANY OF THE 700 INDUSTRIAL PROJECTS IN THE 2ND FOUR-YEAR PLAN WILL BE POSTPONED OR CANCELLED.

12. ANOTHER INDICATOR THAT SITUATION IS GETTING WORSE FOR ALGERIA IS DROP IN INTERNATIONAL RESERVES WHICH, ACCORDING TO IMF, PEAKED AT \$1,987 MILLION IN OCTOBER 1974 AND BY FEBRUARY 1975 WERE DOWN TO \$1,263 MILLION, A 36 PERCENT DROP IN FIVE MONTHS. US BANKS HAVE SAID PETRODOLLAR DEPOSITS IN THE US FROM ALGERIA INCREASED UNTIL NOVEMBER BEFORE BEGINNING SLOW DESCENT.

13. EMBASSY WOULD APPRECIATE DEPT. DISCUSSING THIS FORECAST WITH EXIM, WHICH HAS OWN FIGURES, AND WITH IMF/IBRD, WHICH HAD A TEAM OVER IN ALGIERS EARLIER IN 1975 AND SHOULD BE WELL ON ITS WAY TO PREPARING ANNUAL ASSESSMENT. WOULD BE USEFUL HAVE RESULT OF THESE CONSULTATIONS SENT TO EMBASSY.
PARKER

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